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ABSTRACT

Minnesota has adopted a financial policy that takes into account the increasing pressure to finance postsecondary education. The policy increases the price of college through increased tuition, while at the same time targeting sufficient financial aid to ensure educational opportunity for financially needy students. In practical terms, this "market rationalization model" (higher tuitions offset with higher financial aid) may enhance educational opportunity more effectively than the traditional low tuition model. This policy may also become the most reasonable way to sustain quality in an area of limited resources and increasing demand for postsecondary education. In philosophical terms, the model makes sense because it focuses limited public funds on students who most need financial assistance and charges a reasonable price for a service (education) that clearly has substantial value to the consumer. The precept behind the market rationalization model is that the public is best served by policies that strengthen market forces in consumer decision making. In Minnesota enrollments have not declined since enactment of this financial policy in 1983. (SW)

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ABSTRACT

RESPONDING TO POSTSECONDARY EDUCATION FINANCING PRESSURES

David A. Longanecker

Increasing the price of college, through increased tuition, may be both prudent and timely public policy, if accompanied by increases in targeted financial aid sufficient to ensure educational opportunity for financially needy students. In practical terms, this "market rationalization model" (higher tuitions offset with higher financial aid) may enhance educational opportunity more effectively than the traditional low tuition model and may become the most reasonable way to sustain quality in an era of limited resources and increasing demand for postsecondary education. In philosophical terms, the "market rationalization model" makes sense because it focuses limited public funds on students who most need financial assistance and charges a reasonable price for a service (education) that clearly has substantial value to the consumer.

While this approach makes sense practically and philosophically, some question whether it will work or not. Do people act rationally? What is rational behavior? Preliminary indications in Minnesota, which has adopted higher tuitions offset with higher financial aid, suggest that the approach does work. Enrollments have not declined. And implementation of the policy has ensured sufficient funding to support the continuation of high quality postsecondary edu

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RESPONDING TO POSTSECONDARY EDUCATION FINANCING PRESSURES

Presentation

to the

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College Entrance Examination Board

October 21, 1986

by

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MINNESOTA HIGHER EDUCATION COORDINATING BOARD

The statement describing this session says that we are in an era of escalating costs, diminishing federal support for postsecondary education, changing demographics, and rapidly shifting manpower needs. Presuming that this statement is correct, which may or may not be true, we face tough times ahead in postsecondary education. The result will be increasing pressure on financing postsecondary education. And one response will be to increase the price of college.

Contrary to public perception, however, this is not necessarily bad. Increasing our reliance on tuition as a source of revenue may be a danger signal, or it may be an appropriate correction in public policy, or it may be an appropriate redirection in the sharing of postsecondary costs.

In Minnesota, in 1983, we intentionally struck out in a new direction -- we established state policy that explicitly establishes who should and will share in the cost of providing postsecondary education. The net effect of this is a set of policies affecting tuition, institutional support, and financial aid. People within the state who remain concerned about the approach we have taken describe the Minnesota approach as a high tuition, high financial aid approach. Those of us who support the policy adopted in 1983 describe it as a reasonable tuition, reasonable financial aid approach, or as a shared responsibility approach.

In this presentation I will describe, both in practical terms and in philosophical terms, why I believe this policy redirection is both prudent and timely, at least for Minnesota.

PRACTICAL RATIONALE

To some extent, this is not an issue of whether charging higher tuitions is the best way to accomplish our public policy objectives, but rather, this may be the only practical way to ensure educational opportunity in an era of limits. Raising the price may sound like a strange way to expand opportunity, so let me explain further why I have postulated this.

First, the low tuition model never has worked effectively to ensure opportunity. The Federal government recognized this in the 1960s, when the original Higher Education Act was adopted to help offset the "total" cost of getting an education, not just those visible costs reflected in tuition. Gradually many states have also realized this. Most states now have substantial financial aid programs of their own, presumably because they are needed, despite the low tuition legacy.

A review of future conditions doesn't bode well for low tuition addressing the financial problems of the future either. The Federal government will most likely continue to play only a limited role in financing postsecondary education. It is certainly unlikely that the federal role will expand. Quality has arisen as a major concern in postsecondary education, and quality costs. Most educational leaders I know argue that our enterprise needs more resources if we are to become better. Demographic trends suggest that serving the unique needs of future students, many of whom will come from disadvantaged backgrounds, will be difficult and costly. And serving new markets will demand new resources or drain existing ones. These conditions will be coupled with the likelihood that many states and institutions will face severe financial restraints, there will be a substantial increase in the demand for other public services, including elementary and secondary education, and changing lifestyles may lead to less public "self-interest" in postsecondary education. All of which suggests that we are going to have to do better with about what we receive today in public resources, or we can abandon goals such as educational opportunity, enhanced quality, and educational diversity.

Second, this approach has some very salutary side-effects. For example, it can be a very effective cost-containment device. Increases in cost are passed on, at least in part, to the consumer, who then can judge whether the increase in quality of the product, which should be consistent with the price increase, is worth the additional investment.

These practical considerations were very important in Minnesota when these policies were adopted in 1983. The state was broke. Indeed, we were facing substantial budget cuts. Yet, our strong postsecondary system was in jeopardy. This approach provided the rationale for increasing postsecondary education's revenues through tuition increases, while still protecting opportunity through offsetting increases in financial aid.

But the real strength of this concept is not in its practical rationale, but rather in its philosophical underpinnings.

PHILOSOPHICAL RATIONALE

The precept behind this "market rationalization model", which is at the heart of many recent reforms in government policy, is that the public is best served by policies that strengthen market forces in consumer decisionmaking. The argument against the traditional low-tuition approach, therefore, is that it is inefficient because it subsidizes activity that consumers can afford and would consume without the subsidy. And for those few who can afford the cost but won't, the question arises whether we should try and entice them into further education if they don't value it enough to pay a reasonable price for it.

But there is also an issue of equity and fairness in who should pay for this service. A strong argument can be made that the traditional low-tuition approach is fundamentally inequitable as well as inefficient. In the 1960s Hanson and Weisbrod established the regressive nature of the standard way of providing public postsecondary education; that is, taxing low and middle-income folk disproportionately heavily to pay for a service that is basically consumed by middle and upper-income folk. By contrast, targeting public subsidies by coupling higher tuitions with higher financial aid provides much greater equity in who benefits and who pays. The social investment is retained to compensate for the social return. In Minnesota, two-thirds of instructional costs still come from state funding. But an increased share of the costs now come from the principal beneficiary--the student.

So, it makes sense, practically and philosophically, but will it work? There are clear dangers in adopting the approach described above. I will address three potential pitfalls.

First, the assumption that people act rationally may not be realistic. What is rational? What if folk don't act rationally? What if the consumer's concept of rationality differs from the policymakers? What then have we wrought? These are all legitimate questions. We do not know for sure, for example, whether the consumer understands the concept of "net price". A student and her or his family may view low tuition quite differently than an equivalent "net price" resulting from a higher tuition offset by financial aid. Or, the students may not get good information so

that they can act rationally. Parents and students may not know enough. The press may tell the wrong story.

Second, the ceteris paribus (all else being equal) assumption that underlies the market rationalization model may not reflect reality. Will the future look like the past? For example, will the state deliver the financial aid necessary to sustain educational opportunity? This is a key question, because not many states have seriously accepted this responsibility in the past.

Third, the efficient delivery assumptions imbedded in the policy may not reflect reality. Many good ideas have failed because they couldn't be implemented in reasonable fashion. They looked good in principle but not in reality. Key issues with respect to this potential pitfall are whether we can fairly assess students' financial need and whether we can deliver the aid efficiently and effectively.

DOES IT WORK?

The ultimate question, therefore, is whether this approach works. The evidence in Minnesota is heartening, but incomplete. The legislature and governor have sustained their commitment to all parts of the package -- tuition, institutional support, and financial aid. Enrollments have not eroded. Indeed, we are well ahead of anything we could have expected (or had projected). And this is occurring in a state that already has a high participation rate. In part, these results have occurred because of other factors as well. The state's economy has been weak, postsecondary education has begun to aggressively market itself, and positive press coverage has helped sustain enrollments.

Quite clearly, the policies still face the test of time. The publi insitutions don't like the policy. They don't like the discipline imposed by the policies. In particular, they don't like the fact that tuitions go up if their budget requests go up. These institutions, collectively and individually, would generally prefer the political to the rational model.

CONCLUSION

In sum, the policy shift looks like it will accomplish its objectives, if you are willing to buy the objectives. What I am really talking about, however, is realigning the public's interest in a developed society, as contrasted with a developing society.

In a developing society, at least in our developing society, the principal public interest is human resource development. Despite all the high sounding rhetoric, equal opportunity is not as high a priority. This is because developing the society requires a solid core of well educated and trained people, and because that is not the societal norm, high general subsidies are needed to reduce the opportunity costs to individuals of securing more education.

In a developed society, at least in our developed society, higher levels of education become the norm. But the public resources for postsecondary education don't necessarily increase proportionately. This leaves the developed society with some difficult public choices. It can get more public resources, through higher taxes. It can maintain its previous policies and funding levels, which I have argued would spread limited public resources so thinly that either quality or opportunity would have to be sacrificed. Or it could focus its subsidies on those who most need them, thus ensuring opportunity through targeting and quality through higher charges to those who can afford them and who receive the greatest benefit.

I think the choice in a developed and civilized society is quite clear.